

WHATCOM COUNTY WATER DISTRICT No. 10
Whatcom County, Washington
January 1, 1993 Through December 31, 1993

Schedule Of Findings

1. The District's Fixed Asset Control System Should Be Strengthened

Our audit of the district's fixed asset system revealed the following weaknesses:

- a. The lack of a written fixed asset policy.
- b. Physical inventories of assets are not performed on a periodic basis.
- c. There are inadequate system controls to ensure all assets are included in the fixed asset records and all dispositions of surplus property are recorded.
- d. The lack of district identification tags and records of asset serial numbers for maintenance and office equipment.

RCW 43.09.200 requires the State Auditor to prescribe uniform accounting systems. The State Auditor prescribes the *Budgeting, Accounting and Reporting System* (BARS) manual which states in Volume 1, Part 3, Chapter 7:

Accountability for fixed assets is required for all local governments, regardless of size.

The BARS manual further states:

An adequate fixed asset system will enable your government to meet statutory requirements, to produce adequate records and reports and to safeguard assets properly.

The weaknesses noted in the fixed assets internal control system are the result of the district's failure to recognize the importance of the system in protecting assets from possible theft and/or loss. The district, therefore, has not allocated enough time and resources to ensure an adequate system is in place.

Failure to implement adequate policies, procedures, and controls over fixed assets increases the likelihood errors and/or irregularities could occur. It also increases the likelihood these errors and/or irregularities would go undetected by the district.

We recommend the district:

- a. Develop and implement a fixed asset policy to increase the district's accountability for fixed assets.
- b. Perform periodic fixed asset physical inventories and reconcile those inventories to the fixed asset records.

- c. Implement adequate system controls to ensure all fixed asset acquisitions and dispositions are properly entered in the fixed asset records.
- d. Implement procedures which will identify all assets by identification tag and serial number.

2. The District's Materials Inventory Control System Should Be Strengthened

Our audit of the district's materials inventory system revealed the following weaknesses:

- a. The district lacks a policy governing access, purchase and usage of materials inventory.
- b. A lack of controls to ensure all materials purchased and used are included in expense reports.
- c. A lack of system controls to ensure items are correctly and consistently priced.
- d. There is virtually unlimited access to inventory by all district employees.

RCW 43.09.200 Division of Municipal Corporations - Uniform System of Accounting states in part:

The accounts shall show the receipt, use and disposition of all public property, and the income, if any derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept or required to be kept; necessary to isolate and prove the validity of every transaction

The American Institute of Certified Public Accountant's (AICPA) in its *Codification of Statements on Auditing Standards*, AU Section, 319, Appendix D, states in part:

Establishing and maintaining an internal control structure is an important management responsibility. In establishing specific internal control structure policies and procedures concerning an entity's ability to record, process, summarize and report financial data that is consistent with management's assertions embodied in the financial statements

The district failed to implement basic accounting controls over its materials inventory, making it difficult to hold individuals responsible or accountable for their own activities. As a result, inventory is not adequately safeguarded to discourage theft and other irregularities, or to discover these occurrences in a timely manner. In addition, accounting records cannot be relied upon to determine the accurate costs of inventory and inventory costs charged to projects.

We recommend the district:

- a. Develop and implement a policy to improve the district's accountability for materials inventory.
- b. Implement adequate controls to ensure all inventory purchased and used is accurately recorded in the accounting records.
- c. Develop and implement controls over materials inventory pricing to ensure inventory is correctly and consistently priced.
- d. Restrict access to materials inventory to a limited number of employees responsible for the control of the inventory.